

Message Text

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53

ACTION EB-11

INFO OCT-01 EUR-25 EA-11 ISO-00 SP-03 AID-20 NSC-07 RSC-01

CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 L-03 H-03

PA-04 PRS-01 USIA-15 CIAE-00 COME-00 FRB-02 INR-10

NSAE-00 XMB-07 OPIC-12 LAB-06 SIL-01 ABF-01 FSE-00

DRC-01 /178 W

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P R 201440Z JUN 74

FM AMEMBASSY PARIS

TO SECSTATE WASHDC PRIORITY 0103

INFO USMISSION EC BRUSSELS

USMISSION OECD PARIS

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMEMBASSY ROME

AMEMBASSY TOKYO

UNCLAS PARIS 14982

PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A

TAGS: EFIN, FR

SUBJECT: DISCOUNT RATE GOES TO 13 PERCENT

1. BANK OF FRANCE TODAY RAISED ITS DISCOUNT RATE FROM 11 TO 13 PERCENT. AS USUAL, RATE FOR REDISCOUNTING OF MEDIUM-TERM EXPORT PAPER RELATING TO TRANSACTIONS WITH COUNTRIES OUTSIDE EUROPEAN COMMUNITY REMAINS FIXED AT 4.5 PERCENT.

2. DISCOUNT RATE INCREASE COMES IN WAKE OF GENERAL RISE IN FRENCH INTEREST RATE LEVELS FOLLOWING ANNOUNCEMENT OF NEW ECONOMIC MEASURES ON JUNE 12 (PARIS 14374). OVER

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PAST WEEK, DAY-TO-DAY MONEY HAS RISEN FROM 13 TO 14

PERCENT. LAST MONDAY BANKS JACKED UP THEIR LENDING RATES, SETTING NEAREST FRENCH EQUIVALENT TO PRIME RATE AT 14.45 PERCENT. WITH CONTINUING PRESSURE ON MONEY MARKET RATES, THERE MAY WELL BE NEW INCREASE IN BANK LENDING RATES TO CUSTOMERS.

3. IT SHOULD BE RECALLED THAT DISCOUNT RATE IS LARGELY SYMBOLIC, SINCE UNDER CURRENT OPERATING PRACTICES, BANK OF FRANCE PROVIDES ACCOMMODATION TO COMMERCIAL BANKS THROUGH OPEN MARKET OPERATIONS RATHER THAN DISCOUNT WINDOW. HOWEVER, WITH RECENT JUMP IN COST OF MONEY, TODAY'S MOVE BECAME INEVITABLE. IT IS KIND OF STORM SIGNAL FROM MONETARY AUTHORITIES TO FINANCIAL COMMUNITY. STONE

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30 JUN 2005

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